

## Message Text

CONFIDENTIAL

PAGE 01 COLOMB 01891 01 OF 02 240726Z

ACTION NEA-07

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FM AMEMBASSY COLOMBO

TO SECSTATE WASHDC 0172

INFO AMEMBASSY DACCA

AMEMBASSY ISLAMABAD

AMEMBASSY KATHMANDU

AMEMBASSY NEW DELHI

C O N F I D E N T I A L SECTION 1 OF 2 COLOMBO 1891

LIMDIS

ADCOR

E.O. 11652: GDS

TAGS: EAID, CE

SUBJ: AMBASSADOR'S VIEWS OF THE CHANGE SINCE MID-1977 OF SRI

LANKA'S DEVELOPMENT SITUATION

1. SUMMARY: THIS CABLE INFORMALLY SKETCHES THE GSL'S CHANGING PREOCCUPATION - FROM BEGINNING TO MEET IMF REQUIREMENTS WHICH IMPOSED POLITICALLY RISKY POLICIES REQUIRING AN URGENT SEARCH FOR ASSURED FOREIGN SUPPORT TO THE PRESENT SITUATION WHERE PROSPECTIVE ASSISTANCE LEVELS ARE SUBSTANTIAL AND THE NEED NOW IS TO SHAPE SOLID PROJECTS WHILE IMPLEMENTING OTHER IMF CONDITIONS. IT IS BACKGROUND TO MY AID STRATEGY CABLE, COLOMBO 1556. END SUMMARY.

2. FIRST GLOOMY MONTHS: DURING THE FIRST FOUR MONTHS AFTER MY AUGUST 1977 AUGUST HERE, I WAS SURPRISED BY THE TRULY "REVOLUTIONARY" APPROACH OF THIS GOVERNMENT TO ECONOMIC AND  
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PAGE 02 COLOMB 01891 01 OF 02 240726Z

DEVELOPMENT POLICY, AND THE POLITICAL RISKS THEY WERE READY TO RUN ON BEHALF OF TOUGH IMF REQUIREMENTS -- AND THEIR OWN GOOD SENSE OF WHAT THE LOCAL SITUATION REQUIRED IF THE PLACE WERE EVER TO REALLY ADVANCE ECONOMICALLY. I WAS CONCERNED ABOUT THE FOLLOWING:

(1) THE IMF WAS IMPOSING POLITICALLY UNBEARABLE RISKS (AND PROJECTING FROM HISTORY, THEY CERTAINLY WERE);

(2) THE IBRD WOULD BE SO PEDESTRIAN IN ITS APPROACH TO BANK PROJECT OR PROGRAM LENDING THAT IMPORT FLOWS AND EMPLOYMENT OPPORTUNITIES WOULD MATURE SO SLOWLY THAT WE WOULD HAVE A NEW YOUTH EXPLOSION, LIKE 1971; AND

(3) THAT OUR CONGRESSIONALLY-DICTATED AID PROCEDURES WERE INESCAPABLY SO CUMBERSOME THAT HERCULEAN EFFORTS WOULD BE NECESSARY IF WE WERE TO BE ABLE TO DO OUR NECESSARY BIT IN TIMELY FASHION.

3. FIRST IBRD TEAMS WERE NEGATIVE. THESE CONCERNS WERE HEIGHTENED BY AN IBRD TEAM THAT WAS HERE IN DECEMBER WHICH STRESSED THE POOR COORDINATION NEAR THE TOP IN THE GSL, THE MULTIPLICITY OF INDIVIDUALS WHO PRESUMED TO HAVE SOME SAY ON ECONOMIC POLICY, AND A SENSE OF GENERAL LACK OF MANAGEMENT. HERE FAMILIAR DIFFERENCES BETWEEN THE BANK AND THE FUND WERE AGAIN APPARENT. AS THE IMF ENTHUSIASTICALLY BACKED "THEIR" CLIENTS WHO FOR ONCE WERE RESPONSIBLE LDC OFFICIALS THE BANK STAFF ALMOST REFLEXIVELY TOOK JAUNDICED VIEW WHICH EMPHASIZED THE LACK OF PROJECTS ON THE SHELF FOR THE BANK AND OTHERS TO FINANCE. LEADING MEMBERS OF THE GSL ALSO SENSED THE BANK'S LACK OF ENTHUSIASM.

4. THE IBRD CHANGES ITS TUNE AND THE GSL IS GREATLY RELIEVED: THE SITUATION AS THE GSL SEES IT HAS RADICALLY CHANGED DURING THE PAST SIX WEEKS. THE FIRST CHANGE WAS DUE TO VISITS OF IBRD STAFF BLOBEL AND PRESIDENT DAVID HOPPER. HOPPER IS A CONFIDENTIAL

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PAGE 03 COLOMB 01891 01 OF 02 240726Z

DEVELOPMENT BUFF, A RIVER VALLEY ENTHUSIAST, AND HE AFFIRMED THE BANK'S SERIOUS INTEREST IN MAHAWELI. THIS WAS THE FIRST SOLID WORD FROM THE BANK SINCE COOMARASWAMY AND RATNA COOKE HAD MET WITH MCNAMARA IN NOVEMBER. THE BANK REPORT SUBSEQUENTLY STRESSED MANY OF THE DIFFICULTIES, BUT ITS MESSAGE IS ESSENTIALLY AFFIRMATIVE.

5. OTHER DONORS STEP FORWARD FOR MAHAWELI, ETC.: SOMEWHAT INDEPENDENTLY OF THE BANK'S AFFIRMATION, THE BRITISH WERE ALREADY EXPRESSING ACTIVE INTEREST IN VICTORIA DAM, AN INTEREST THEY CONFIRMED AFTER THE BANK'S PRELIMINARY SEAL OF APPROVAL AND AGREED TO ACCELERATE THE PREPARATION FOR DOING FINAL STUDIES ON VICTORIA. THE CANADIANS WERE BY NOW READY TO FINANCE WHATEVER FEASIBILITY STUDIES WERE NECESSARY. THE SWEDES MADE SYMPATHETIC \$10 MILLION NOISES; THE JAPANESE WHISPER THEY ARE READY TO PUT IN SOME \$5-10 MILLION INTO MAHAWELI, THE IBRD PERHAPS \$20-30 MILLION.

6. THE FUND REMAINS BULLISH AND EXPECTS ITS POLICIES TO BE FOLLOWED:

AT THE SAME TIME, FUND SPECIALISTS HAVE BEEN SUFFICIENTLY CONFIDENT OF CONTINUED POLICY COURAGE ON THE PART OF THE GSL

TO RELEASE THE SECOND TRANCHE OF THE STANDBY ON THE PREMISE THAT OTHER CONDITIONS WILL BE ADHERED TO. THEY HAVE BEEN WAITING UNTIL THE SINHALESE/TAMIL NEW YEAR, WHICH IS NOW ON. BANK TECHNICIANS IN MY OFFICE A WEEK AGO WERE FOR THE FIRST TIME ENTHUSIASTIC ABOUT THE NEW QUALITY OF STAFF PAPERS GOING FORWARD TO THE CABINET AND THE CABINET SECRETARIAT'S COMMITTEE COORDINATING THE PLANS AND ACTIVITIES OF THE DEVELOPMENT MINISTRIES, WHICH MEET WEEKLY UNDER THE ABLE SECRETARIATSHIP OF SAM SAMARASINGHE. (THE FUND NOTICED THIS IMPROVEMENT OVER TWO MONTHS AGO.)

CONFIDENTIAL

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PAGE 01 COLOMB 01891 02 OF 02 240743Z

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C O N F I D E N T I A L SECTION 2 OF 2 COLOMBO 1891

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7. TURN OF GSL.

AS THE PRESIDENT SAID TO ME WHEN I SAW HIM TWO WEEKS AGO ON OTHER BUSINESS, "THE BALL IS NOW IN OUR COURT." IT CERTAINLY IS\* THEY HAVE BEEN MORE SUCCESSFUL IN FINDING INTERNATIONAL SUPPORT FOR THEIR DEVELOPMENT THAN ANY OTHER GOVERNMENT IN SRI LANKA'S HISTORY. THEY NO LONGER WORRY ABOUT SIGNS OF INTERNATIONAL SUPPORT. THEY'VE GOT THE PSYCHOLOGICAL AND FINANCIAL REASSURANCE THEY NEED.

8. NOW THE PROBLEMS UPPERMOST IN GSL MINDS ARE ADMINISTRATIVE, BUREAUCRATIC, MANAGERIAL, NOT SHORTAGE OF FUNDS.

A PERSISTING PROBLEM, AS DEPICTED IN OUR AID STRATEGY CABLE (COLOMBO 155) (AND LAST YEAR'S ABS) IS THAT THEIR MACHINERY FOR DEFINING PROJECTS IS WEAK AND NOW LAGS BEHIND THE OFFERS

THEY HAVE WITHIN REACH AT PRESENT. THEY HAVE GOT TO BEAR DOWN AND PRODUCE SPECIFIC PROJECT PROPOSALS. I HAVE BECOME INCREASINGLY AWARE THAT THEIR UNDERLYING PERSONNEL IN THE TECHNICAL AND ADMINISTRATIVE SERVICES ARE THINNER ON THE GROUND

CONFIDENTIAL

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PAGE 02 COLOMB 01891 02 OF 02 240743Z

THAN USED TO BE THE CASE. EVERY WEEK WE HEAR OF MORE OF THE TECHNICAL CADRES WHO ARE LEAVING FOR THE MIDDLE EAST AT FOUR AND FIVE TIMES LOCAL SALARIES. SO STAFFING OF KEY SPOTS, BOTH FOR DESIGNING PROJECTS AND IMPLEMENTING SOME OF THESE POLICIES WHICH REQUIRE ADMINISTRATIVE, MANAGERIAL AND TECHNICAL SKILLS WILL BE MORE DIFFICULT NOW THAN GETTING THE MONEY, THOUGH UNTIL SIX WEEKS AGO, MONEY SEEMED SHORTER THAN TALENT.

9. YET GSL MUST DEFINE THEIR OWN PRIORITIES AND SHAPE THEIR PROJECTS.

THERE MIGHT BE SOME ADVANTAGES TO GETTING U.S. TECHNICIANS INTO THE MINISTRIES TO HELP DESIGN PROJECTS TO OUR SPECIFICATIONS AND TO GET THE EXPENDITURE SYSTEM FLOWING FASTER. BUT ALL AGENCIES HERE ARE FIRMLY OPPOSED TO THAT COURSE. WE CONTINUE TO EMPHASIZE THE NEED TO INCLUDE CAPITAL ASSISTANCE AS WELL AS 'MANDATE' PROJECTS, WHILE KEEPING U.S. PERSONNEL HERE TO A MINIMUM. HOW FAR WE CAN GO IN THAT DIRECTION, UNDER EXISTING CONGRESSIONAL DICTATES, I CANNOT TELL FROM HERE. BUT I ENDORSE AN EFFORT TO RE-EXAMINE EARLIER CONSTRAINTS THAT PREVENTED CONSIDERATION OF ANY CAPITAL INPUTS, INCLUDING CONTRIBUTING TO DAM CONSTRUCTION.

10. BREATHTAKING CHANGE NOT YET FULLY REALIZED BY CEYLONESE.

I HOPE THAT FOREGOING GIVES SOME OF THE BACKGROUND TO HOW THINGS HAVE BEEN SHIFTING IN THE FIELD OF ECONOMIC ASSISTANCE. THE CHANGE HAS BEEN RATHER BREATHTAKING. EVEN NOW THE LOCAL AND FOREIGN BUSINESS COMMUNITIES HAVE NOT YET CAUGHT ON TO THE FACT THAT SRI LANKA NOW HAS AS MUCH FOREIGN EXCHANGE AS IT HAS HAD AT ANY TIME SINCE THE MID-50'S, AND THAT IMPORT LICENSES ARE NO LONGER NECESSARY. THE PRISON DOOR IS OPEN AND THE PRISONER DOES NOT YET KNOW WHAT TO DO WITH HIS FREEDOM. THE MINISTER OF FINANCE, HOWEVER, REPORTED THE OTHER EVENING THAT BUSINESSMEN ARE BEGINNING TO RESPOND. AND

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PAGE 03 COLOMB 01891 02 OF 02 240743Z

WE SEE VERY MARKED IMPROVEMENT IN STAFF WORK FOR MAHAWELI AND A MORE REFINED HANDLING OF TARIFFS AND OTHER ASPECTS OF ECONOMIC POLICY. UNEMPLOYMENT, HOWEVER, REMAINS AS INTRACTABLE AS EVER AND FOOD AND OTHER PRICES ARE RISING MARKEDLY FOLLOWING DEVALUATION.

11. THIS WILL PROVIDE BACKGROUND TO MY COLOMBO 1556 ON AID  
STRATEGY. WRIGGINS

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## Message Attributes

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